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Iran, Sanctions, and Nuclear Proliferation: In Search of a Strategic Alternative

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Iran, Sanctions, and Nuclear Proliferation:

In Search of a Strategic Alternative

BY

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Baccalaureate Degree (BA), University of New Hampshire, 2010

THESIS

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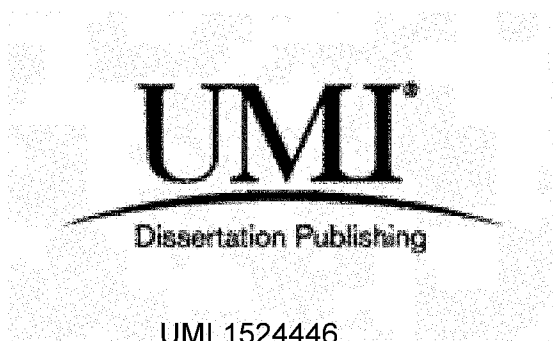
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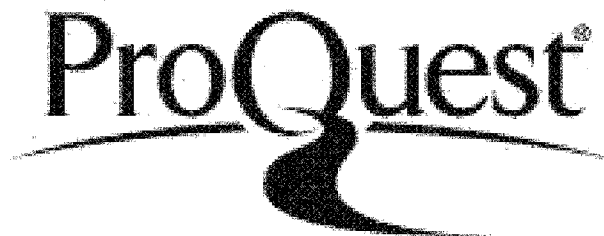


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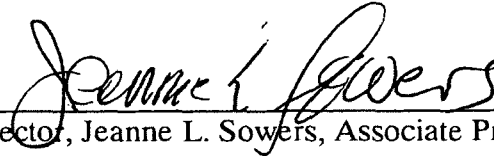
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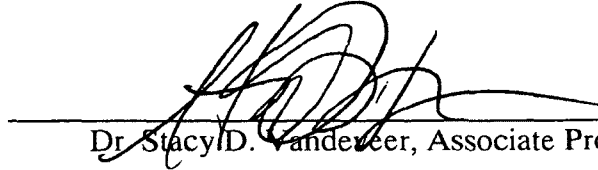


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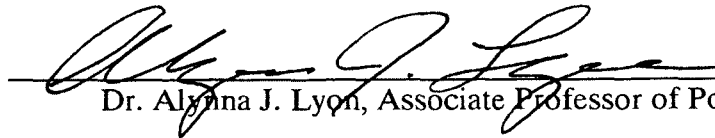
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For My Loving & Supportive Parents,

Denise & John

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ABSTRACT

In Search of a Strategic Alternative

By

Michael J. Cole

University of New Hampshire, September, 2013

The complex political landscape of Iran is often excluded from political discourse, contributing to oversimplified, at times incoherent policy approaches that reflect fundamental misunderstandings and typically undermine rather than complement U.S. nonproliferation objectives. Domestic receptivity to international inducements is conditioned by specific characteristics of the domestic political environment. Economic sanctions have distributional effects that weaken moderate factions needed to pressure the hardline constituencies of the regime. Coercive instruments have strangled Iranian civil society, the private sector and the middle-class, severing crucial state-society networks, leaving reformist forces vulnerable to the new wave of hardline conservatism that has, in spite of U.S. pressure, gained control of the state apparatus since 2005. If external pressure solidifies the radical faction's political hold on power while weakening their moderate competitors, the state will be less likely to embark on a course of denuclearization.

Chapter I:

Introduction

Since 2001, the U.S., in conjunction with other members of the international community, has implemented twenty-eight separate forms of sanctions intended to pressure the Iranian government's commitment to a nuclear program (Kreps & Pasha 2012; 205). These measures include freezing financial assets, tightening export controls, and the use of coercive diplomacy; threatening the use of military force should Iran cross the established "red lines." Though the U.S. relies heavily on the use of sanctions as an overall part of their negotiating strategy, there is a weak causal relationship between the economic and political pain inflicted by sanctions and forcing the target state, in this case, Iran's capitulation. As Richard Haass points out, "the problem with economic sanctions is that they frequently contribute little to American foreign policy goals while being costly and even counterproductive" (Haass 1997; 75).

In terms of the effectiveness of economic sanctions, only one question really need be asked: are sanctions improving the target state's compliance? Assessments on the efficacy of economic sanctions tend to omit data on whether those sanctions achieve their specified goal. In this sense, these assessments take a selective view of history. According to Western diplomats, the goal of the sanctions imposed on the Iranian state is to change the calculations and behavior of Iran's leaders. This is not to assume that the U.S., or other sender states are unitary actors. There may well be a diverse array of

motivations and goals behind the imposition of sanctions on Iran, from inducing policy change to weakening the state to provoke regime change. However, these motivations are purely speculative. It is for this reason that this research bases its conclusions on what has been officially stated as the purpose of economic sanctions, focusing on why, despite the intense international economic and political pressure exerted on the Islamic Republic, Iran's acquiescence on the nuclear issue has still not been achieved.

According to the widely cited study from the Institute for International Economics (IIE), in which 116 cases of sanctions from 1914 to 1990 were analyzed, broad sanctions-- i.e. total and financial and trade embargoes-- do not have a good track record of changing target countries policies or of pushing them toward democracy (Bahrami & Trita 2012). In fact, sanctions have a poor record of influencing the behavior of states and in many instances, have severely harmed the populations at large, particularly vulnerable groups and democratic movements. At times it seems that sanctions are used for the sole purpose of placating the advocates of a clenched fist, hardline policy toward Iran. Supporters of the sanctions policy toward Iran conflate the suffering of ordinary Iranian people and civil society in general with the weakening of the regime and its central allies. "The real challenge or achievement of economic sanctions is not the orchestration of economic pain, but the translation of it into effective leverage in a successful negotiating strategy" (CFR 2012; 70). This seems nearly impossible given the atmosphere in Washington that makes little distinction between the key player's of the conservative establishment's nuclear program and the more liberal, reform minded constituents interested in restarting dialogue with the West. Mainstream U.S. media portrays the Iranian regime as a homogenous political entity unified in its pursuit of uranium

enrichment and confrontation with the West. “Rationale and rationalization, systematic presentation and symbolism, become so intertwined that it is difficult, even for policy-makers themselves, to disentangle reality from rhetoric” (Keohane and Nye 1989; 5). The reality, as is often the case, is far less black and white than the hyperbolic appraisals that inform the average American viewer. The complex political landscape of Iran is often excluded from public discourse, contributing to oversimplified, at times incoherent policy approaches that reflect fundamental misunderstandings, typically undermining rather than complementing U.S. objectives in the region.

An underlining theme in this work is that economic sanctions often create unintended consequences that complicate achieving foreign policy objectives, as their distributional effects tend to influence behavior in unanticipated ways. I argue that Iran’s domestic receptivity to external sanctions and inducements is conditioned by specific attributes of the domestic political landscape –namely, the distributional impacts of sanctions on different political coalitions (Solingen 2012; 11). This is an often overlooked, albeit important, causal mechanism that shapes future policy concessions. As this paper demonstrates, the impacts of economic sanctions are distributed unevenly across Iran’s political spectrum. “The sanctions regime has played into the hands of groups with an interest in isolating the country from the global economy and thus making denuclearization less likely” (Solingen 2013; 175). Thus, it is crucial that analyses take into consideration how the domestic political environment conditions the incentive structures of the state’s elite coalitions. Economic sanctions scholar George Lopez (2000; 14) posits that a key weakness in the sanctions literature is that analyses tend to create a misleading impression of the ineffectiveness of sanctions because they undervalue the

broader political impact of sanctions. The political implications of sanctions are indeed an important benchmark of the policy's success. In the case of Iran, however, it is precisely due to the broader political impacts that have been a detriment to the overall success of sanctions.

This thesis, therefore, focuses on the external and internal pressures that impact Iran's domestic political and economic environment and account for variations in the government's nuclear calculus. The distributional effects of sanctions and positive inducements among different actors play a large role in shaping the Iranian regime's decisions on the nuclear program (Nader 2012; 212). Selecting the form of inducement most appropriate in the context of U.S. foreign policy goals depends a great deal on their timing. Non-proliferation strategies that undermine the political leverage of moderate coalitions, such as negative inducements, will also undermine U.S. interests. The Iranian political environment and the material incentives that shape each coalition's political and economic preferences are important considerations vis-à-vis the effectiveness of sanctions. With a more precise understanding of the domestic political processes of the Iranian state, focusing particularly on the internal dynamics that shape Iran's interaction with the international community, and the complex factors that condition the policy responses of the regime's various factions, this analysis illustrates why certain strategies are more (or in this case, less) effective in inducing policy change.

This thesis argues that a primary reason for this outcome is that negative inducements, specifically economic sanctions, have distributional effects that have inadvertently weaken moderate factions needed to pressure the hardline constituencies of the regime. In fact, sanctions imposed on Iran are largely responsible for the regime's

further entrenchment. While sanctions have done little to affect the regime's overall behavior, draconian sanctions have strangled Iranian civil society, the private sector and the middle-class, severing crucial state-society networks for the moderate forces in Iranian politics. The result of which has left the reformist movement vulnerable to the new wave of hardline conservatism that has, in spite of U.S. pressure, gained control of the state apparatus since 2005.

Thus, this thesis finds that coercive mechanisms imposed by the international community have been ineffective at best, counterproductive at worst. Failing to distinguish between potential allies and irreconcilable foes has endangered the reform movement in Iran. Any possibility of opposition groups coalescing into a force potent enough to initiate reforms is being severely undermined by indiscriminate comprehensive sanctions on finance. In other words, sanctions have helped to weaken the very domestic forces presumably required to leverage the power of sanctions on the state and its hard-liner allies.

Methodology and Theoretical Framework

This thesis is an observational (small-n) study that applies multiple theories in the field to substantiate the research findings. "Social scientists recognize small-n studies as a distinctive form of empirical inquiry and an important design for the development and evaluation of public policies as well as for developing explanations and testing theories of political phenomena" (Johnson & Reynolds 2012; 197). This research relies on analyses found in the academic research literature of the field, speeches from both Iranian

leaders and influential actors within the international community, elite interviews, non-profit think-tanks reports (e.g. RAND, ICG, ICAN et al.) and relevant documents relating to the International Atomic Energy Agency (IAEA), the Non-Proliferation Treaty (NPT), U.S. Presidential orders and United Nations Security Council resolutions. These resources allow for a closer examination of the causal processes of negative inducements on the targeted regime.

It is difficult to analyze the numerous institutions, informal and formal networks, and personalities that influence processes of political change in Iran, given the opacity of the decision-making and policy processes. Whether sanctions cause, or simply aggravate, Iran's economic predicament and the shift in its domestic environment are not conclusive based on the available evidence. "Contemporary world politics is not a seamless web; it is a tapestry of diverse relationships. In such a world, one model cannot explain all situations" (Keohane and Nye 1989: 4). There are a plethora of unilateral, bilateral and multilateral measures simultaneously at work, which makes it exceedingly difficult to establish a methodological framework to isolate the effects of one restrictive measure over another. However, we can assess the aggregate effects of the current sanctions regime on Iranian willingness to limit their nuclear program. This thesis, therefore, assesses the aggregate impact of measures that have been imposed between 2000-2012. The 2000-2012 time-frame selection is based on the stark change in the regime's nuclear strategy. Under the reformist government led by then-president Muhammad Khatami, there was an unprecedented level of cooperation between the U.S. and Iran reaching a high point in 2003 when Khatami agreed to suspend its nuclear program in exchange of economic and security concessions. However in 2004, the political climate changed, as

did the regime's willingness to cooperate on the nuclear issue, which precipitated the hard-line conservatives ascendancy in Iran's domestic politics.

In instances in which transparency is limited, as in the case of Iran, a political economy focus on outward versus inward oriented ruling coalitions can be helpful in accounting for much of the variation in nuclear restraint across states and within states over time (Solingen 2012). This thesis, therefore, is a qualitative political economy analysis of the elite coalitions of the Iranian state. This thesis employs a political economy framework to highlight Iran's elite domestic coalitions, their access to power and resources, their protected constituencies and bases of support that may account for variations in Iran's nuclear policy. Subsequent chapters explain these variations by employing the notions of elite coalition type and regime type. I find that the use of negative inducements (threats of war and economic sanctions) negatively impact Iran's level of receptivity and willingness to cooperate on the issue of uranium enrichment, thereby working in a way counterproductive to U.S. policy objectives. In instances in which introverted coalitions wield considerable formal and informal influence over the state, as is presently the case, negative inducements may initiate a counterproductive trajectory that jeopardizes the desired outcome.

Specifically, I show how two characteristics of the domestic environment -- "coalition type" and "regime type"-- help predict which form of inducement is best suited to change the calculations of Iran's leaders regarding the need for nuclear capacities. Drawing on the work by Solingen (2012) and Kreps and Pasha (2012), if a ruling coalition is *introverted* (groups opposing integration with the outside world) then it will be less receptive to negative inducements. Furthermore, if external pressure solidifies the

radical elite coalition's political hold on power while weakening their moderate rivals, then it is less likely that the state will embark on a course of denuclearization.

This research adopts a comparative approach at the domestic level of analysis, focusing on the elite coalitions that comprise the Iranian state. The case studies used in this research apply the theory of the unequal, distributional impacts of negative inducements on elite coalitions in Iran. This thesis takes the Reformist movement as a case study of the distributional impacts on extroverted coalitions and the Islamic Revolutionary Guard Corp. (IRGC) as a case on the introverted coalitions. Taken together, these cases show how economic isolation and the weakening of extroverted political rivals benefits the radical right in Iran, facilitating its ascension within the political and security bureaucracies of the state. The inclusion of these case studies in this analysis is important because they represent the competing, albeit most influential political voices within Iran and reveal the differentiated consequences of negative inducements on actors at both ends of the political spectrum. Together, these cases allow for a more rigorous assessment of the impact of sanctions on the political, economic and societal spheres of the state and why the results of which may be at odds with their intended purpose--changing the calculations of Iranian leaders.

There are distinct advantages to using comparative case studies. They allow for greater depth and description so that there is greater degree of conceptual clarity in testing a theoretical framework. Instead of looking at several features across numerous cases, a case study examines numerous diverse features of the case in greater depth (Neuman 2012). For the purposes of this research, a case study method was chosen to provide greater depth to the phenomena of the distributional impacts of sanctions that not

only spillover into the political but the economic and social as well. The use of case studies allows for the investigation of nuances lost when political processes are generalized abstractions or numerical indicators (Fortna 2008).

As with every approach to social science research, qualitative case studies also have shortcomings and weaknesses. This thesis focuses primarily on the state of Iran, its economy, society and principle actors. The extent to which these findings are generalizable is contingent on replicating these research findings across other cases. Therefore, it is not certain that the findings of this research can be generalized to other contexts without further analysis of additional cases. Nevertheless, the framework for assessing the effectiveness of sanctions applied here serves as a starting point for further research in similar cases in which sanctions are imposed.

The essential theoretical argument presented in this thesis is twofold. The first is that the domestic coalition's economic orientation ("coalition type") is an important characteristic that helps predict the way in which a coalition will respond to external pressure. In this case, if a coalition is introverted, such as the IRGC, then it will be less receptive to negative inducements e.g. comprehensive or targeted sanctions and military threats. The primary reason why the introverted coalition will be less receptive to negative inducements is that sanctions, threats and segregation from the global economy compliments their long-range political and economic goals and facilitates their consolidation of power over domestic institutions. "Inward-looking leaders generally oppose integration because their domestic support comes from the military-industrial sector that depends on state subsidies, state bureaucracies themselves, and protected industries" (Kreps & Pasha 2012; 178). Introverted coalitions have a greater incentive to

maintain the status quo because external threats are used to justify an increase in military spending, which creates more revenues to establish patronage and clientage systems, and also justifies their institutional legitimacy and the repression of their political rivals. In Iran, threats of war and economic sanctions have empowered hardline coalitions while paradoxically weakening the domestic position of moderate coalitions. It is clear that sanctions produce differentiated consequences among the various actors in the domestic context. This is precisely the reason why the distributional impact of sanctions across domestic actors must be accounted for when crafting inducements.

The impact of the sanctions creates an ideal domestic environment for introverted groups such as the IRGC, helping them consolidate their power over informal as well as formal networks and institutions of the state and society over the past decade. I argue that military, economic or rhetorical threats (i.e. coercive diplomacy), strengthen coalitions that stymie international economic integration, resist international regimes, and privilege domestic industries, including the same nuclear program that outside threats hope to undermine (Solingen 2012). Kreps and Pasha eloquently map the causal logic as to why negative inducements strengthen introverts while undermining extroverts.

Negative inducements lead to-> a strengthening of inward-looking coalitions wary of integration into the global economy-> which deepens their ability to strengthen monopolies, protectionism, import substitution, and the military-industrial complex, including the nuclear program. Conversely, these negative inducements-> undermine the target state's international environment and ability to attract foreign investment-> these conditions undercut extroverted coalitions seeking to integrate with the global economy-> thus, weakening domestic proponents of a more conciliatory nuclear policy (Kreps & Pasha 2012).

The threat of military force plays into the narrative propagated by the radical coalitions, and is instrumentalized to justify a prolonged state of emergency. Mobilizing for external defense is a customary strategy of the IRGC to rally their political base of support and consolidate formal control over domestic institutions. The utility of an external menace to keep Iran on war footing and distract the populace from the regime's own economic failings has long been a feature of the Islamic Republic's official discourse (Wehrey et al. 2009). "Standard diversionary theory argues that inter-state confrontation can improve internal cohesion and result in a "rally" effect which boosts the leading coalition's political position" (Davies 2012; 323). Inflammatory rhetoric from the outside, direct threats and the heightened state of emergency caused, or at least justified by sanctions, helps to cultivate a domestic political environment that is conducive to the expansion of inwardly-oriented or introverted groups in nearly every aspect of Iranian life and society. Threats of military force reinforce their threat narrative, which provides a useful diversionary tactic to reorient public anger toward the outside. "This is particularly the case if the inward-looking coalition has built its narrative around the idea that nuclear weapons are an instrument for defending against unwanted international influence" (Kreps & Pasha 2012; 178).

The second half of the theoretical argument also looks to the domestic environment as it provides the context in which external inducements operate. The domestic characteristic of "regime type" also conditions the state's response to external, negative inducements. I argue that an authoritarian regime is less receptive to negative inducements than a democratic regime. In an authoritarian context, leaders and governments have many ways to insulate themselves, and designing "smart" sanctions to

target only them is extraordinarily difficult (Haass 1997). Sanctions also have the unintended consequence of legitimizing a regime's grip over the political and economic spheres of the state and provide a significant advantage in maintaining its power. A domestic political environment in a state of emergency or under siege enables the regime to batten down the hatches in terms of repressing oppositional and civil society mobilization, diverting attention away from domestic troubles as well as necessitating strict control of the country's vital resources. For example, "by creating scarcity, [sanctions] enable governments to better control the distribution of goods; and they create a general sense of siege that governments can exploit to maintain political control" (Haass 1997; 80). This is especially the case for the IRGC, who, because of their pervasive influence in domestic politics, are well positioned to benefit from the structural changes to Iran's economy under sanctions. This dynamic closes off previously existing opportunity structures for the reform movement to mobilize against the regime. In a domestic environment that demands unity and punishes dissent, the oppositional voices, in this case the Reformist coalition, are expelled from the corridors of power and marginalized to the periphery of domestic politics.

Thus, in the same way that the *coalition type* reveals the way in which a coalition will respond to external coercion, the *type* of regime, that is, the nature of its domestic institutions (authoritarian v. democratic) helps to predict how vulnerable the regime will be to external pressure (Solingen 2012). As the research presented below demonstrates, autocratic regimes have an easier time mitigating the negative effects of sanctions than do democratic regimes. By diverting the pressure of financial burdens away from the key players of the regime and onto ordinary Iranians and its political adversaries, autocratic

regimes can insulate themselves from the paralyzing effects of sanctions. Thus, sanctions are not as effective on less transparent regimes.

Before moving on, I would like to briefly clarify a few terms key to the argument presented in this thesis. An *inducement*, a mechanism that may induce someone to do something, may be a positive incentive, or conversely, a negative punishment. When using the term “negative inducements,” I refer to the collective impact of both military threats and comprehensive economic sanctions. The term, *model for political survival* refers to an elite political coalition’s orientation for taking strategic decisions, interacting with domestic and international actors and integrating with the global economy. In most cases, coalitions represent a broad range of interests and values that do not fit neatly into any one categorization. In the interest of clarity, however, one can posit the model of political survival as following between two ideal types: *extroverted* (internationalizing) and *introverted* (inward-looking) perspectives.

Extroverted coalitions seek global economic integration and participation in international institutions as a way to promote modernization and reduce uncertainty. As Solingen (2012; 12) notes, “Internationalizing coalitions require political and economic stability to reduce uncertainty and maximize access to foreign markets, resources, capital, investments, aid, and technology.” In contrast, inward-looking coalitions reject the global economy as an engine of industrialization and moreover, “tend to emphasize economic nationalism-sometimes dressed in rigid religious identities- casting ambitious nuclear programs as tools of modernization and symbols of defiance against perceived dominant global political and economic orders” (Solingen 2012; 11). As we take a closer look at the actors on Iran’s domestic stage, the implications of each model of political survival

on the country's nuclear position and interaction with the outside world will become clearer.

Overview of Chapter Contents

Cortright and Lopez (2000; 32) posit that the traditional criteria for assessing the effectiveness of sanctions have been too narrow. This thesis attempts to broaden the scope of analysis to consider the social, humanitarian, political and economic impacts of sanctions across the spectrum of diverse actors in Iran's domestic environment. There must be greater focus on the internal dynamics of the target state to assess the differentiated impacts of sanctions on the elite actors of the state and society. The media tend to offer vague portrayals of the Islamic Republic, depicting Iran as an irrational state actor. "Despite a widespread belief to the contrary, Iranian policy is made not by "mad mullahs" but by perfectly sane ayatollahs who want to survive just like any other leaders" (Waltz 2012; 4). Power and policy oscillate from moderate to fundamentalist, cooperative to confrontational as diverse domestic coalitions operate in the context of a highly complex, fragmented political terrain. The intense factional rivalries in Iran, driven by competing ideologies and visions, have shaped Iran's economic and foreign policies since the 1979 revolution. Conflating domestic polities under a general title of radical or 'evil' misses the fundamental point that the incentive structure of each domestic coalition and faction is different, and therefore will likely respond differently to external influences (Solingen 2012). "Although Iran's leaders indulge in inflammatory and hateful rhetoric, they show no propensity for self-destruction" (Waltz 2012; 4). Incendiary speeches made

by Iranian leaders are primarily tailored for domestic consumption and should not be considered a window into the real intentions of the regime's dominant actors. The subsequent chapters map the domestic political landscape of Iran to provide insight into the country's political complexity and eliminate some of the misconceptions that constrain outsiders' abilities to engage in informed policy decisions.

Past studies have portrayed the Iran as an omnipresent structure or actor, homogenizing extremely complex features of the state. An appropriate metaphor for the Islamic Republic is to think of Iran not as an apple, or one unitary, coherent actor, but as a cluster of grapes. The grapes represent all the various political and economic groups within Iran vying to assert their interests and ideology on the state. There are some grapes that are larger and more developed than others and there are some grapes that are bruised and fragile. Some may be highly interconnected while others exist on the periphery with very few linkages at all. This situation is reflective of the Iranian regime, which has been divided since it was established in 1979.

The fragmentation of Iran's political landscape can be categorized into four distinct coalitions or blocs, moving from political left to right; *Reformists*, *Conservative Pragmatists*, *Conservative Traditionalists*, and *Radicals (Neo-Principalists)*. In order to establish a clear delineation between coalitions, this analysis divides these groups further into the categories of *Islamic Left* and the *Islamic Right*. This categorization is based on the political preferences of each coalition. Whereas the elite coalitions of the Islamic Left promote a more liberal society in which the controls on civil society are relaxed, the Islamic Right adheres to the rigid principles of the Islamic Revolution and envisions a religiously homogenous society with strict controls on society. The left-right dichotomy

is more complicated in regards to their economic preferences. Whereas the Islamic Left primarily engages in a development-oriented economic strategy, the Islamic Right's economic approach is predicated on redistributive policies. Both the Islamic Left and Right prefer domestic economic policies that are sympathetic to the statist economic left. However, a clear distinction can be made in terms of their relationship with the global economy and their respective modes of political survival-introverted v. extroverted. The various Reformist groups and the Pragmatic Conservatives comprise the Islamic political Left while the Islamic Right is made up of the two aforementioned sub-factions: the Pragmatic Traditionalists and the far-right, ultra-conservative Neo-Principalists. The domestic environment in Iran can also be divided based on the three distinct epochs in which each coalition held the reins of power: the Pragmatic Conservative era (1989-1997); the Reformist era (1997-2005); and the Neo-Principalist era beginning in 2005 and continuing through to the present time (Safshekan 2010).

One major goal of this thesis is to distinguish between the Iranian domestic coalitions willing to bring about a diplomatic solution to the nuclear standoff and those groups who have an interest in escalating tensions and maintaining economic isolation. Identifying each coalition's ideological aims, constituencies, economic preferences, and access to resources and power are the factors underpinning this distinction. Chapter II assesses the distributional impact of economic sanctions on the Islamic Left as well as the urban middle class and civil society. I argue that the prospect of fostering a counter-regime grassroots movement needed to pressure the regime is under threat because many Iranian citizens are even more vulnerable, and thus, more dependent on the government they wish to reform. Chapter III of this analysis examines the distributional effects of

sanctions on the Islamic Right. I pay special attention to the ultra-conservative, hardliner coalition, the Islamic Revolutionary Guard Corp (IRGC), and argue that negative inducements facilitate their socio-economic and political expansion into Iran's state and security apparatus, as well as informal corridors of power, accounting for their overall contribution to the current nuclear stalemate. This chapter will focus on the ways in which the hardliners-- i.e. introverted coalitions-- have been politically and economically strengthened as a direct and indirect result of external pressure. The advocates of weaponizing the nuclear program are presently benefitting from the economic isolation brought on by sanctions because their power is derived from an introverted political economy model which benefits from protectionism, strict import controls and the removal of foreign influence. The Revolutionary Guards have been able to adapt to the rapidly changing economic environment under sanctions because of its privileged position throughout Iran's domestic political institutions. As this dire situation persists and continues to suffocate the reform movement, the probability of Iranian capitulation on the nuclear issue is less likely to occur.

The concluding chapter of this thesis looks to strategic policy alternatives to coercive diplomacy that could alleviate the confrontational atmosphere of international negotiations and put an end to the nuclear crisis. For negotiations to be effective, an incremental process of building trust and respect on both sides of the table must be initiated. This is easier said than done since the dreary history of coercive diplomacy shows that all too often, threats and promises undercut, rather than complement each other (Jervis 2013). As it stands now, there are more domestic political advantages in pursuing a policy of nuclear resistance in Iran than there are international incentives to

cooperate. Support for Iran's increasing level of nuclear resistance is evident in elite speeches, interviews, the regime's economic adjustment policies and the mere fact that tensions still remain high surrounding the regime's unwillingness to suspend its uranium enrichment program. If there is any hope of stalling the march toward war, there must be greater effort to produce a negotiating strategy that is sensitive to Iran's security concerns, material incentives, internal dynamics and regional ambitions that could help to put negotiations back on track and bring Iran back in line with its international treaty obligations.

Chapter II:

The Distributional Effects of Negative Inducements on the Islamic Left

Domestic and regional environments shape the incentive structures of elite coalitions that comprise the state. Each coalition has preferences, interests and vantage points that can be altered due to changes in the domestic and international political environments. Power relations, bargaining among domestic groups and changing international conditions shape state interests and policies (Karns & Mingst 2004). Sanctions and inducements affect individuals (leaders, producers, consumers, rent-seekers, and others) who respond to them in ways that shape collective outcomes (Solingen 2012; 10).

This chapter begins by analyzing the moderate groups that comprise the Islamic Left, and then examines how changing regional conditions and external inducements alter their domestic position and ability to influence internal political outcomes. I argue that the differentiated impact of negative inducements (e.g. threats of military force) coupled with economic sanctions have been deleterious for extroverted coalitions such as the reform movement, the urban middle class and civil society groups in Iran. I show how the groups most likely to push for cooperation with the West and internal democratization have been economically marginalized, made more politically vulnerable, and found everyday life more difficult as a result of the sanctions regime. The problem with this

type of broad-brush approach is that sanctions tend to affect the general population, while those in government and the military are able to skirt the sanctions (Haass 1997; 79).

The Islamic Left

The Reformists are the most moderate faction in Iranian politics, essentially representing the reorganization of the political left that emerged in the mid-to-late 1980s. In 1988, moderate clergy members split from the Association of Militant Clergy, *Jameeh Rowhaniyyat-e Mobarez*, and formed the Society of Militant Clergy, *Majma-e Rowhaniyoun-e Mobarez* (Wehrey et al. 2009). The Islamic Left of today is composed of various reformist groups such as the pro-Khatami Islamic Iran Participation Front and Mehdi Karroubi's National Trust Party (Nader 2012; 217). The reformists represent the internationalizing, extroverted model of political survival. Though all political coalitions in Iran subscribe to the concept of a theocratic state ruled according to the *velayat-e faghih* i.e. rule of the supreme jurist, the political left favors a more developed and free civil society, greater transparency and pluralism in the political system and integration with the global economy to promote economic growth. "Though previously espousing socialistic and statist economic policies, the Islamic Left has increasingly favored less state control over the economy" (Nader 2012; 217). The most vital constituencies of the Reformist coalition include Iran's intelligentsia (i.e. liberal writers and students), the middle and professional classes, activist groups for women's rights and other minority rights as well as various other groups attempting to loosen the government's control on civil society.

During the Reformist era between 1997-2005, there was an unprecedented degree of cooperation between Iran and its most fierce regional and international rivals. Former Iranian President Mohammad Khatami was also able to foster a much more tolerant Iranian society during his tenure in the late 1990s. A 2004 World Bank report claimed, “after 24 years marked by internal post-revolutionary strife, international isolation, and deep economic volatility, Iran is slowly emerging from a long period of uncertainty and stability” (Nader 2012; 219). (Nearly a decade later, we now know that this optimism was premature and short-lived.) Then-president Khatami introduced the notion of the “Dialogue among Civilizations” calling for the normalizing of relations between the Islamic nations of the world and the international community based on mutual respect and common purpose. In addition, following the tragic events of September 11, 2001, Iran assisted the U.S. in the overthrow of the Taliban government and committed over \$500 million in reconstruction efforts in Afghanistan. The Islamic Republic did, of course have an interest in seeing the destruction of the Taliban, since they were on the verge of war with the problematic Sunni extremist organization in 1997; nevertheless, this was considered to be a breakthrough in U.S.-Iran relations and the possible start to a new era of mutual understanding and cooperation. In 2003, a remarkable breakthrough took place during negotiations between Iran and members of the EU₃, Britain, France and Germany in which Tehran agreed to suspend its nuclear program and voluntarily agreed to uphold the additional protocol of the IAEA safeguard agreement. Ray Takeyh (2009; 247) points out that Khatami’s suspension of the program was not a cynical ploy...it was a genuine attempt to determine what Iran could gain in terms of security assurances and economic concessions for its voluntary act of suspension.

The hardliner factions, though politically marginalized at the time, vehemently opposed many of Khatami's initiatives, especially the suspension of the nuclear program and sought out any opportunity to undermine his agenda. The Reform government's detractors claimed that Khatami and his allies were 'tired revolutionaries' who abandoned the principles of the Islamic revolution. Surprisingly, this courageous new foreign policy ended up being severely undermined not by the competing coalitions within Iran's domestic landscape, but by careless accusations made by the Bush Administration. During the January 29, 2002 State of the Union address, George W. Bush uttered a phrase heard around the world. Bush proclaimed that North Korea, Iraq and Iran constituted the world's "axis of evil", and stated that the destruction of these regimes had become a vital nation security interest. Shortly thereafter, National Security Adviser Condoleezza Rice clarified the administration's position on Iran. "Iran's direct support of regional and global terrorism," she said, "and its aggressive efforts to acquire weapons of mass destruction, belie any good intentions it displayed in the days after the world's worst terrorist attacks in history" (PBS Frontline 2007). Following this diplomatic faux pas, the streets of Tehran were overflowing with enraged citizens condemning the U.S., giving the conservative movement an opportunity to fan the flames and raise the country's threat perception. Thus, for the Reform government, it became extremely difficult, if not impossible, to credibly promote dialogue with the West. By May of 2002, Khamenei openly dismissed the possibility of diplomatic engagement and the brief glimmer of hope to restart relations between the U.S. and Iran was extinguished. "External threats make the domestic economic objective of broader integration more difficult, since the

possibility of military force destabilizes the domestic economy and discourages foreign investment” (Kreps & Pasha 2012; 180).

Washington’s bellicose rhetoric damaged the reform movement’s reputation and left them politically vulnerable to the hardliner coalitions, who framed Khatami’s policies as weak and claimed that his faction were nothing more than puppets of foreign regimes. The combination of Washington’s rhetoric and ensuing actions allowed the hardliner factions back into the political mainstream. When the dust settled it became impossible for the Reform agenda to gain traction with the conservative establishment, especially the supreme leader. Without the allied support of the supreme leader and his powerful domestic coalition, the reform agenda stalled and soon after, Iranian citizens became weary of the moderates’ inability to effectively govern and enact the promised institutional reforms. In a sense, the neo-conservative government in Washington helped the rise of the neo-conservative coalition in Tehran.

These developments indicate how incendiary rhetoric (e.g. threats of military force) undermines the strength of internationalizing or extroverted coalitions. The reformers’ strength draws from the ability to promote economic linkages, which are far more complicated in the face of military force (Kreps & Pasha 2012). In the context of the Bush Administration’s foreign policy agenda of regime change in Iraq and the subsequent asymmetrical shift in power relations in the Middle East, Iranian leaders became increasingly anxious regarding Washington’s intentions toward Iran. Far from Iran lamenting the demise of Saddam Hussein, the speed at which he met his demise lingered in the minds of the clerical establishment, alerting them to their country’s strategic vulnerability to the ambitious superpower. The recalculating of Iran’s strategic

vulnerability on the part of Iran's clerical establishment is evident in the subsequent change in attitudes toward the U.S. The 'Axis of Evil' speech signified a dramatic turning point not only in U.S.-Iran relations but also in the domestic balance of power in Iranian politics. The ripple effect of this development continues to influence the confrontational context of the nuclear debate today.

The second elite coalition represents the center of Iranian politics. The Conservative Pragmatists are a hybrid political faction that gravitates toward the Reformists regarding matters of the economy but is more conservative regarding cultural issues. Economically, the Pragmatists subscribe to a top-down, 'China Model' of modernization, arguing for increased financial and technical cooperation with the West but not for greater democratization of state institutions (Wehrey et al. 2009). "These groups perceive little benefit from a policy of nuclear assertion or ambiguity, both for domestic and international reasons, and have been more amenable to relinquishing nuclear programs that might place barriers to international economic access" (Solingen 2012; 13). The Conservative Pragmatists live up to their name as they often choose pragmatism over ideological fervor and are, at times, willing to sacrifice revolutionary prestige in favor of compromise. This bloc has, at times, reversed its position in domestic affairs, which provoked criticism from both the moderates and the conservatives as being political opportunists. This reflects the eclectic nature of Pragmatists, representing a diverse collection of interests and values. Their primary constituents are typically the urban middle classes, *bazaari* merchants and former and current government technocrats. The Conservative Pragmatists exhibit a composite model of political survival, one that includes internationalizing and introverted tendencies.

Akbar Hashemi Rafsanjani, known as the *saradar-e sazan-degi* or “generalissimo of reconstruction,” pursued pragmatic foreign policies so to help carry out his economic agenda aimed at greater integration with the global economy. Under Rafsanjani, Iran abandoned its efforts at exporting the revolution to other Shi’a states and improved relations with Sunni-majority countries such as Saudi Arabia. Rafsanjani also garnered support from technocratic officials in many of the state’s economic ministries who shared his vision of a more capitalist system of Islamic rule. However, “the Pragmatists’ efforts at economic reform were blocked by the Traditionalists, whose monopolistic control of the economy would have been endangered by greater domestic and international competition” (Nader 2012; 219). Despite the Pragmatists’ contribution to the development of Iran’s infrastructure following the devastating eight-year war with Iraq, the benefits were not visible enough for the poorer classes as the general population failed to see the oil money reach their dinner tables. It is for this reason that the Islamic Right’s redistributive policies gained overwhelming support from the lower socioeconomic, rural and urban classes in following years.

Since the Pragmatists are amenable to revisiting ineffective or harmful policies, regardless of ideological affiliation, they could prove to be a crucial ally for the Reform movement and its more moderate agenda of resuming multilateral engagement. Developing attractive incentives for cooperation presupposes awareness of their interests, however. Again, understanding the domestic political processes in Iran is the only way to discover which actors may be more receptive to external inducements and willing to return to negotiations than others. In order to bring about a more realistic possibility of obtaining cooperation and a pathway to agreement on the nuclear question, it is important

to address these moderate factions' domestic pressures as well as their constituent and institutional loyalties. Pragmatic and moderate coalitions will only support a cooperative policy with the West only if cooperation is believed to be in their best interest and only if it will strengthen their respective domestic positions.

The current sanctions regime that imposes conditions of international isolation is detrimental to these moderate groups seeking dialogue with the international community. Extroverted coalitions, who draw their strength by creating economic interconnectedness with the outside world and by providing conditions conducive to foreign investment, have been pushed from the corridors of power in Iran. The domestic costs of negotiating are rising as cooperating with the West is no longer a politically salient option. The new generation of financial sanctions has ostensibly targeted the various nodes that connect Iran to the global economy. The comprehensive sanctions imposed on Iran cause significant decreases in private sector domestic production and sever reformist coalitions from the political power traditionally derived from their economic activities and associations with formal institutions.

The economic costs are clear. The fledgling private sector is unable to import the necessary raw materials for manufacturing and the banking sanctions are causing a virtual standstill in imports and exports of legitimate businesses (ICAN 2012). Prior to 2006 (between 1996-2006) and before the financial sanctions that froze Iranian assets were imposed, over 6 million new jobs were created. According to former Iranian Central Bank researcher Djavad Salehi-Isfahani, however, between 2006 and the present, zero new jobs have been created and unemployment has risen to record highs. Meanwhile, the government is expanding its reach into the private sector by privatizing former state

assets and selling them to the regime's closest allies, thus giving groups like the IRGC a strategic economic advantage over its domestic competitors.

Unlike past sanctions, like the kind imposed on regimes such as Libya and Iraq, which only focused on the 'illegal' transfer of funds and money laundering, the Iranian sanctions are not related to a specific sector or industry nor to business entities or specific individuals. This economic uncertainty due to sanctions is causing stagnation for the private sector, while some businessmen point out that companies affiliated with the state, e.g. IRGC, are exploiting the situation as they have access to government exchange rates (ICAN 2012; 10).

The moderate coalitions are not only weakened economically, and thus politically, they are losing a major aspect of their power within civil society and the ability to exert grassroots pressure on the regime. Social theorist Sidney Tarrow (1998; 88) notes that reform is most likely when challenges from outside the polity provide a political incentive for elites within it to advance their own policies and careers. In this case, these challenges from the outside (i.e. economic sanction) are a detriment for the elites pursuing reformist policies but have, however, created opportunities for the introverted elites to thrive under the status quo. In the absence of counter-regime mobilization and sustained collective action from the Islamic Left, pressuring the regime's capitulation and reform makes for a very unlikely outcome.

Constraints on Contention

Traditional analyses on the effectiveness of sanctions (see David A. Baldwin) have been confined to indicators of economic and social deterioration and the subsequent

political choices of the target nation's leadership (Cortright & Lopez 2000). Sanction optimists hope or assume that sanctions will create sufficient pressure on the regime to bring Iran to the negotiating table regarding its nuclear policy. "In this framework, sanctions are supposed to exact political change that is directly proportionate to the economic hardship experienced" (Cortright & Lopez 2000; 19). As an International Crisis Group report noted, "Behind the sanctions policy lies the hope that growing popular discontent will confront the regime with a stark choice: altering its nuclear policy or running the risk of popular unrest" (ICG 2013; 31). However, sanctions are having a long-term negative impact on the source of societal change in Iran as they undermine the ability to mobilize and affect internal reforms. In other words, sanctions are not only failing to induce sufficient social pressure on the government to force a change in policy, they are creating barriers to those very forces seeking reform. "By reducing the scope of independent action," argued Haass, sanctions can work against forces promoting political pluralism" (1997; 80). Specifically, the urban middle class that has historically played a central role in creating change and promoting progress in Iran are key casualties of the sanctions regime (ICAN 2012).

Civil society groups are rapidly losing influence in Iranian society. Volunteerism is nearly impossible due to economic uncertainty caused by the rotating schedules of escalating sanctions. "Sanctions and in particular, the limitations placed on the transfer of funds, has created serious impediments for charity organizations engaged in health and medical services, education efforts, support for orphans and disadvantaged women and children to carry out their work" (ICAN 2012; 7). Many of these organizations have ceased operations entirely.

Furthermore, the confrontation with the West is making it difficult for grassroots groups and urban protesters to criticize government policies for fear of being accused of treason. Debilitating sanctions coupled with the daily rhetoric of war elevates national security concerns and further diminishes the state's tolerance of internal dissent (ICAN 2012). Any opposition to government policies is framed as tacit support for external enemies under the auspices of reform.

Security challenges imposed by their own government already curtail civil society's ability to attend regional and international conferences. But the policies of other governments further complicate their lives (ICAN 2012). Unable to use international banks to transfer funds or to obtain visas to travel abroad, activists, like all regular Iranian citizens, are unable to access basic services that could perhaps be used to foment solidarity between reform-minded individuals and organizations across the world. "Activist groups, already facing harsh repression, have seen their limited financial resources dry up; restrictions on the export of communications technology from the U.S. has severely hindered the flow of information" (ICG 2013; 37).

The use of external resources is crucial in building a movement that is able to disseminate and frame its messages to millions of people to encourage greater participation and widespread support. Sidney Tarrow (1998; 124) claims, "the most effective forms of organization are based on partly autonomous and contextually rooted local units linked by connective structures, and coordinated by formal organizations." In instances in which social networks are severed, so too is the ability to mobilize supporters rapidly and exert pressure on the state through established institutions. Social movements face great hurdles in sustaining confrontation with opponents, maintaining a broad

support base, and containing fissiparous tendencies, and many thus simply disappear (Tarrow 1998).

External resources, exposure, and attention can help sustain a mass movement. Thus, just when contact with and solidarity from the outside world are most needed, Iranians are faced with the greatest level of isolation. As an Iranian analyst concluded:

The domestic actors striving to change the behavior of the Iranian state, it turns out, do not merely constitute unfortunate collateral damage. They are the direct recipients of policies that deny them protective tools, leaving them vulnerable to significantly more powerful entities which always find ways to get around sanctions and access instruments of repression (Fahri 2012b).

The practical downside to economic sanctions is that it weakens potential allies within the target population. This poses several problems for the U.S. and for grassroots mobilization against the Iranian leadership. First, it is difficult for sanctions to be effective in the absence of a so called “transmission mechanism” whereby civilian suffering could translate into actual policy changes (Palkki & Smith 2012). The elimination of connective structures, such as the free flow of information amongst civic activists, has effectively undermined any hope of translating the suffering of the Iranian population into a collective action scenario in which the regime would be openly challenged. The reformist coalitions have been stripped of their economic sources of support, and therefore, political leverage to pressure the regime and effectively represent ordinary Iranians. Rising tensions with the U.S. and its allies and the subsequent punitive measures imposed to bring Iran in line with its international treaty obligations creates a prolonged state of emergency that prevents opposition groups from vocalizing their disapproval of the regime’s policies. In the absence of the extroverted coalitions’

economic influence, the patronage system of government elites has been able to deflect much of the anger emanating from the population, which has largely protected the regime from social upheaval. In addition, civic organizational structures and networks have dissipated as financial resources have evaporated. It is in this way that economic sanctions are weakening civil society actors, reform-oriented members of Iranian society, democratic and women's groups, supplanting their influence and ability to engage in contentious politics.

Humanitarian Costs of Coercive Diplomacy

Policy-makers consider sanctions to be a preferable non-violent alternative to less diplomatic methods of coercion. However, there are hidden costs to this strategy that appear less like diplomacy and more like economic warfare. The banking sanctions that were implemented in December 2011 have wreaked havoc on ordinary Iranian citizens to an unprecedented extent, which has numerous unintended consequences on the already fractious landscape of Iran's domestic politics. A majority of Iranians (56%) say U.N./U.S. sanctions have hurt Iranians livelihoods a great deal. Separately, 48% say sanctions have affected their own personal livelihoods a great deal (Gallup 2013). According to Iranian economist, Djavad Salehi-Isfahani, from 2006-2011, zero new jobs have been created for the middle classes. The unemployment rate for women is now over 30% while men experience 20-25% unemployment. The Iranian youth have been hit the hardest: 30% of men 18-25 years of age are unemployed while over 50% of women in the same age group are struggling to find work.

UN Security Council sanctions on Iran (S/RES/1696, 1737 (2006), 1747 (2007), 1803, 1835 (2008), 1887 (2009) and 1929 (2010) creates food shortages, soaring prices on public goods and services, exacerbates economic, political and social instability, as well as heightens the sense of injustice that Iran is treated unfairly by the international community and the United States in particular. According to a report by the Woodrow Wilson International Center for Scholars, the West's sanctions regime against Iran contributes to shortages of humanitarian goods by disrupting the supply chain from foreign manufacturer to the Iranian patient in need of medicine (USIP 2013). "Reports of widespread shortages of specialized medicines for cancer patients, hemophiliacs and individuals suffering from diabetes, multiple sclerosis and other serious conditions are numerous" (ICG 2013; 34).

According to a December 2012 Gallup poll, thirty-one percent of Iranians rated their lives poorly enough to be considered "suffering," one of the highest rates in the greater Middle East and North Africa region (Gallup 2013).¹ Countries with similar "suffering" rates are typically war-torn areas such as Afghanistan, Syria, and sub-Saharan African states. Prices of basic food, clothes, and electronic goods have soared as a result of international sanctions and a plummeting currency; the rial has more than halved in value over the past year. Nobody believes the official figure of 24% for the annual rate of inflation (Economist 2012a). "To be sure, there are signs of public anger related to the economic downturn. Much criticism is directed at the regime, but there are also indications that the West increasingly is blamed for what is viewed as a form of collective punishment" (ICG 2013; 31). According to that same 2012 Gallup Poll, only

¹ Results are based on telephone interviews with 1,000 adults, aged 15 and older, conducted Dec. 16, 2012-Jan. 10, 2013, in Iran. For results based on the total sample of national adults, one can say with 95% confidence that the maximum margin of sampling error is ± 3.8 percentage points.

around 10 per cent of the population holds the Iranian government accountable for the economic downturn. “People do not necessarily see a correlation between an increase in the price of domestically produced goods and sanctions. So they blame the government. But shortages of medicine have changed the dynamics, and people increasingly blame the West for their predicament” (ICG 2013; 31).

Conclusion

As this chapter has showed, despite conventional wisdom, sanctions tend to be a blunt instrument, the effects of which spillover beyond the target government and onto the civilian population. Sanctions assessments seem only to focus on areas in which government institutions and sectors are directly affected, however, these reports tend to completely omit the devastation imposed on Iranian citizens and the reformist clusters of its civil society. It is obvious that sanctions hurt economies but it’s important to consider who, specifically, gets hurt. Economic sanctions are not an alternative to war but are rather tantamount to war. In essence, sanctions constitute a form of collective punishment levied against an entire population, indiscriminate of potential allies and vulnerable segments of the population. Comprehensive sanctions against Iran are too broad to impact the behavior of the government. Instead they target the population. As Haass noted:

The danger inherent in broad sanctions-beyond missing the true target- is both moral, in that innocents are affected, and practical, in that sanctions that harm the general population can bring about undesired effects, including strengthening the regime, triggering large scale emigration, and retarding the emergence of a middle class and a civil society (Haass 1997; 79).

The U.S. has a strategic interest to maintain a good relationship with the Iranian people. “Ordinary Iranians are suffering from policies of confrontation on which they have never been consulted” (Economist Aug 18 2012). A relaxation on financial restrictions may, in fact, open up a safety valve for democratic and reform movements to re-establish operations in civil society and regain some of the waning support of the population by solidifying its previous system of patronage in urban centers. Further reliance on economic sanctions will continue to produce unintended consequences that will inevitably complicate the actualization of its stated goals.

Khatami’s reformist government demonstrated to the world that Iran could moderate its foreign policy and balance its nuclear ambitions in the context of its additional goals, such as integration into the global economy. Iran’s willingness to suspend its nuclear program was instead met with threats of regime change from Washington, dramatically altering Tehran’s strategic calculations, threat perception and its domestic balance of power.

Current non-proliferation strategies via economic sanctions have created conditions in Iran that are counterproductive for extroverted domestic coalitions and reform-oriented civil society organizations, often viewed as the catalysts of collective action. Financial restrictions and the severing of connective structures in formal and informal networks contribute to the demise of the groups needed to engage in collective action to force the regime’s capitulation. The financial embargo imposed on ordinary Iranian citizens has severely limited their ability mobilize, organize and exploit opportunities to exert pressure on the regime. In their absence, the ultra-conservative

coalitions have asserted their hegemony over the economic, political and societal institutions of Iran, relegating their reformist counterparts to near irrelevance.

Chapter III:

The Distributional Effects of Negative Inducements on the Islamic Right

Negative inducements, both economic and rhetorical, have produced different outcomes across the spectrum of actors on Iran's domestic stage. Segregating Iran from the global economy presents opportunities for some groups while encouraging the demise for others. The distributional impact of negative inducements upsets Iran's fragile political environment, manipulating the balance of power between factions in favor of introverted coalitions. As a result, the elite coalitions associated with the state are less receptive to negotiations and cooperation, creating a whole new set of unintended consequences that complicate the nuclear standoff. In this sense, "issuing threats may make for good politics but not necessarily good strategy" (Kreps & Pasha 2012; 207).

This chapter posits that introverted coalitions thrive under conditions of economic isolation. The Revolutionary Guards, in particular, have a clear economic interest in a sanctions regime that imposes conditions of international isolation. This chapter begins by highlighting the domestic actors that comprise the Islamic Right. The latter half of this section traces the ensuing internal developments in Iran that contribute to the Revolutionary Guards' hegemony over the economic, political, security and societal institutions of the state.

The Islamic Right

The Conservative Traditionalists represent the largest political faction within the Islamic Republic, dominating the regime's unelected institutions since its creation. Their reach extends into nearly every major political and security institution of the state, from the Office of the Supreme Leader down to the Iranian parliament, the *Majlis*. The Traditionalists possess primary control over the most important political institutions in Iran, including the Guardian Council, which has the authority to vet and ban political candidates from elections, and the Assembly of Experts, the organ that selects the Supreme Leader. The Traditionalists, like other coalitions with introverted characteristics, value national independence as Iran has a long history of foreign intrusions into its domestic affairs. As Foreign Minister of Iran, Ali Akbar Salehi, commented in a 2012 interview, "The most valuable commodity we have - and we cherish it and hold it very strongly - is independence. And this is the price we have been paying for the past thirty-three years" (Rahimi 2012). The Traditionalists advocate strict cultural purity, national self-sufficiency and robust controls on civil society.

The Traditionalists also possess a monopolistic grip on the economy, which affords them unrestricted access to resources and unregulated discretion. Article 44 of the Islamic Republic's constitution upholds the idea of a centrally planned economy in which the state sector wields control over large-scale industrial sectors as well as foreign trade, banking, insurance, power generation, telecommunications; the "mother" industries. State domination over the economy is one major reason why the regime is able to offset the pain of economic sanctions onto unprivileged domestic groups and why authoritarian regimes are better equipped than democracies to survive external economic pressure.

“Leaders of authoritarian regimes are able to redirect external pressure onto isolated or repressed social groups while insulating and protecting itself” (Cortright & Lopez 2000; 20). Despite unquestionable hardship, the government- also the single most important economic actor and sole dispense of petrodollars- enjoys myriad tools to avoid economic meltdown” (ICG 2013; 26). For example, rentier states can survive without traditional tax bases because of the lucrative income that comes with exporting natural resources, in this case, oil. The economic structure of the Iranian economy may influence the effectiveness of external instruments through varying audience costs of authoritarian v. democratic regimes. “Leaders incur audience costs such as the removal from office or no-confidence votes-when they renege on their own public commitments” (Solingen 2012; 17). Since the regime is generally able to operate independent of its society (little taxation means little representation), Iranian leaders are not as concerned with or sensitive to audience costs. “Because domestic audiences can organize politically to overcome collective action problems and are endowed with the legal authority to remove leaders from office, democratic leaders are expected to be more vulnerable to audience costs than non-democratic leaders” (Solingen 2012; 17). With respect to the expectation of social change, according to Cortright & Lopez (2000; 20), there is no assurance that a sanctioned population will redirect the pain of external coercion onto political leaders and force a change in policy, especially with the authoritarian regimes. In authoritarian settings, such as Iran, the elites who are often the targets of the sanctions regime are in the best position to control economic activity and the allocation of scarce resources (Cortright & Lopez 2000). It is precisely because Authoritarian regimes have a greater

array of instruments at their disposal to retain social control and allocate scarce resources that they are the most difficult to sanction.

The Rise of the Radicals

Changing political winds have ushered in an era of conservative political hegemony that has created strong institutional and bureaucratic pressures on the regime to maintain a hardened nuclear posture that ensures tense relations with the West. The Supreme Leader and the Office of the President both draw considerable support from the IRGC, which has an interest in continuing confrontation with the U.S. (Davies 2012). While the ayatollah's power was previously based on the authority of the clergy and a complex web of factions and institutions, today it is increasingly based on the IRGC:

By the time Ayatollah Ali Khamenei ascended to the position of Supreme leader, Iran's internal balance of power began to change. Former allies of the clerical establishment did not appear to be reliable legitimating sources for the new leader, who was originally a junior cleric from the city of Mashhad, bereft of significant theological credentials. Possibly to compensate for this, the new Supreme Leader cultivated a long term relationship with the armed forces from the earliest days of the revolution, and the IRGC was the greatest beneficiary of the change in leadership (Wehrey et al. 2009; 80).

The Conservative Traditionalist's impetus for developing nuclear technology is tied to the perception that the nuclear program increases its domestic legitimacy, supports its regional ambitions and provides an important deterrent against meddling and foreign interlopers. "Much like North Korea, Iran's nuclear program constitutes an important pillar of the regime's survival and even political legitimacy" (Nader 2012; 211). Another

aspect of Khamenei's nuclear calculus is based on pragmatic considerations, as giving ground to the West on the nuclear program could potentially alienate the Ayatollah and his Conservative Traditionalist faction from the guardians of the revolution, the IRGC.

The supreme leader is far from convinced that the benefits of dealing with the enemy outweigh the potential pitfalls posed by declining revolutionary prestige and a possible injection of "hedonistic" Western values into Iranian society (Economist 2013). Under present conditions, the domestic costs of abandoning the nuclear program outweigh international incentives currently on the table. For the supreme leader, political survival would be impossible without his praetorians. The ayatollah's camp, the Conservative Traditionalists, maintain a precarious, albeit necessary partnership with the ranks of the Revolutionary Guards. The 2009 uprising undermined the image of the Supreme Leader as living above the political fray, making him a target for political backlash. The IRGC's support comes at a high price for Khamenei. Alfoneh (2010; 74) suggests, "in return for its assistance against reformist groups such as the Green Movement, Khamenei has had to bribe the IRGC with political, economic, and even ideological influence." The waning power of the Supreme Leader coupled with the ascendancy of the Revolutionary Guards has culminated in a domestic political environment in which a defiant nuclear posture is politically expedient.

Although the Office of the Supreme Leader sits atop the official Iranian governmental hierarchy, it is the Neo-Principalist faction that has become the most influential political, economic and social coalition driving policy choices and collective outcomes within Iran. The Radicals or the "Neo-Principalists" are the faction most closely associated with the Islamic Revolutionary Guard Corps (IRGC). It is only when

the IRGC transcends its institutional limits and seeks power as a political actor through the principal political institutions (i.e. *Majlis*, and the presidency) that we can speak of a Neo-Principalist faction (Safshekan 2010). The political group encapsulating this “new conservative” current includes the Developers of Islamic Iran or *Abadgaran-e Iran-e Islami*, which was composed of IRGC and Basij war veterans (Wehrey et al. 2009; 16).

The Revolutionary Guards’ role was traditionally confined to upholding the ideals of the Islamic Revolution with an implicit mandate to protect the conservative establishment from external as well as internal enemies. Article 150 of the Iranian constitution clearly articulates the role of the IRGC, which intentionally divided power between the clerics and the IRGC officers. It has since undergone a fundamental evolution, becoming a largely autonomous political and economic actor that continues to gain both formal and informal influence, rivaling even the Supreme Leader’s political coalition. The IRGC’s presence is particularly powerful in Iran’s highly factionalized political system, in which the president, much of the cabinet, many members of parliament, and a range of other provincial and local administrators hail from the ranks of the IRGC (Wehrey et al. 2009; xi). Though there continues to be cleavages among the ranks of the IRGC, many in the *Majlis* (parliament) identify with the faction known as *Osulgarayan*, the main bloc of conservatives often referred to as “principalists,” which encompasses the supporters of Ahmadinejad as well as unaffiliated conservatives (Boroujerdi & Rahimkhani 2011).

Talk of “working together” and “unity” has permeated the language of the conservative and hardline politicians who are currently running Iran. This language is not meant to extend to reformist or even centrist politicians who have been essentially purged since the 2009 presidential

election, but it does indicate a closing of ranks among an even narrower circle of politicians (Farhi 2012a; 3).

Veterans of the IRGC have maintained a presence in all eight Majlis sessions; however, their presence was formerly confined to single digit representation from 1980-2004. After 2004, the Revolutionary Guards' involvement in politics grew to unprecedented levels, when IRGC veterans won at least 16% percent of the 290 seats (Boroujerdi & Rahimkhani 2011; 2). The newly established political clout of the IRGC officer corps has a visible impact on Iran's foreign policy and its domestic political landscape. Overall, the numbers of parliamentarians with IRGC pedigrees at least doubled between elections in 2000 and 2008 (Boroujerdi & Rahimkhani 2011).

The Political Economy of the Right

Economic sanctions are forcing the restructuring of the Iranian economy. The strategic placement of IRGC officers throughout the regime's influential ministries has helped the IRGC corner opportunities opened up by this restructuring. "As is often the case with sanctions, members of the elite with greatest access to the regime and state privileges are best positioned to survive and even thrive in the new environment" (ICG 2013; 33). The status quo imposed by the international community aids the IRGC's monopolization of key economic sectors and the displacement of foreign and domestic competitors (Wehrey et al. 2009). Comprehensive sanctions and the restrictions on foreign imports undercut the economic clout of Reformist and Pragmatist factions who rely on international businesses to export the resources necessary for manufacturing. The

Revolutionary Guards have an economic preference to resist integration with the global economy because increased foreign competition would threaten their monopolistic grip on lucrative industries and markets. The architects of the nuclear program, the Revolutionary Guards, have all too eagerly filled the power vacuum left in the wake of the failing, legitimate enterprises of the moderate coalitions. Kreps and Pasha posit that shifts in ownership of capital flows substantiate the claim that external threats strengthen introverted coalitions and weaken extroverted coalitions (Kreps & Pasha 2012). “Private businesses have suffered especially under sanctions. Meanwhile economic clout is concentrated in the hands of a small elite, linked to the Revolutionary Guard, which enjoys access to cheap foreign exchange and a virtual monopoly over imports” (Economist 2013; 37). In Iran, the near destruction of the private sector caused by sanctions has strengthened and expanded the state-controlled segment of the Iranian economy (Bahrami & Trita 2012). In the absence of competition from both international and domestic corporations for public contracts within Iran, the Revolutionary Guards filled that void by purchasing contract bids essentially uncontested. In 2010, for example, “the IRGC purchased fifty percent plus one of the shares of the Telecommunications Company of Iran (TCI) from the government for roughly \$8 billion- the largest trade in the history of the Tehran Stock Exchange (TSE)” (Alfoneh 2010; 76).

The regime embarked on a massive policy to privatize important public assets to decrease the level of government spending in the face of economic sanctions. Khamenei had to first reinterpret Article 44 of the Iranian constitution to legally circumvent the provision mandating centralized control over the economy. These efforts at privatizing public assets represent the expansion of the regime’s foremost allies into unprecedented

areas of the economy. The clerical establishment's prominent position in the institutional hierarchy enabled them to disqualify rival companies of the Islamic Left from consideration based on arbitrarily justified "security concerns". This strategy, to give but one example, allowed the IRGC-controlled companies, *Toseeh-ye Etemad-e Mobin Consortium* and *Mehr Eghtesad-e Iranian* to compete for the TCI bid uncontested.

With the privatization of assets estimated to be worth roughly \$120 billion, the Iranian leadership expanded from relatively transparent parts of the public sector to parts of the public sector shielded from public scrutiny (Alfoneh 2010). "For all intents and purposes, this makes the privatization of TCI a handover of publically owned enterprise to the Revolutionary Guards...yet another calculated step in the organization's campaign to dominate the Iranian economy" (Alfoneh 2010; 77).

The Revolutionary Guard's silent coup of the Iranian economy also extends into the country's most lucrative industry, the oil and gas market. The government of President Mahmoud Ahmadinejad asserted its control over the oil and gas sector, reducing the power of the "oil mafia," dominated by allies of former President Akbar Hashemi Rafsanjani (Mohamedi 2013). Enterprises associated with the Islamic Left have been replaced with companies most associated with the Revolutionary Guards. Economic sanctions curtailed the flow of direct foreign investment to domestic markets, devastating legitimate Iranian businesses and essentially eliminating foreign competition from the Iranian oil and natural gas sectors. For example, the *Khatam al-Anbia* (or *gharargah sazandegi khatam alanbia*- abbreviated as Ghorb), the IRGC's most visible construction arm, has strengthened its role throughout the Iranian economy, including the oil and gas sector, specifically within the National Iranian Oil Refining and Distribution Company

(NIORDC). In recent years, Iran's oil ministry signed over billions of dollars worth of no-bid government contracts such as the \$2.5 billion contract to finish the final phases of the South Pars oil field. The *Khatam al-Anbia*, became the single largest recipient of government contracts over the past four years, often bypassing the bidding process completely (Safshekan 2010) and being awarded more than 750 contracts in various construction, infrastructure, oil and gas projects (Wehrey et al. 2009; xv). As one of the few institutions with the capacity to undertake massive public-works projects, the IRGC's construction contracts helped them build an extensive patronage network in rural areas. "The IRGC may calculate that any dissent or blowback over its growing business profile and illicit profiteering will be offset by the networks of patronage and clientage that it has built with a myriad of companies" (Wehrey et al. 2009; 66). The IRGC's role in spurring rural economic development through public-works projects affords it a clear opportunity to build a base of rural support that can counterbalance any opposition from more urban, entrepreneurial classes, the primary constituents of the reformist and pragmatic factions (Wehrey et al. 2009).

As a result, the IRGC now functions as an expansive socio-political-economic conglomerate whose influence extends into virtually every corner of Iranian political life and society (Wehrey et al. 2009; xi). The subsidiary wings of the IRGC are dedicated to ideological outreach efforts via media and education programs, think tanks, youth camps etc. and affords the organization popular support in municipal and national elections. Much of the Revolutionary Guard's institutional legitimacy is predicated on these efforts at ensuring the 'cultural defense' of the country which bolsters public support for the aging ideals of the revolution.

The Guards are further able to make good on their redistributive promises to the public by using their privileged access to economic institutions that operate in the informal sector of the Iranian economy, beyond the purview of regulators. Iranian religious foundations, or *Bonyads*, function as informal avenues through which Revolutionary Guards can exert ideological influence over Iranian society. *Bonyads* were originally established through the expropriation of the Shah's former assets that evolved into massive conglomerates with the capacity to serve the ideological and cultural needs of Revolutionary forces. They operated as religious charitable organizations assisting in the reconstruction efforts following the Iran-Iraq war but now have the additional function of solidifying a system of patronage to those loyal to the revolution. The Revolutionary Guards use of Islamic foundations, *bonyads*, as a means to extend its reach into the Iranian economy and society, enabled the introverted coalitions to counterbalance any political pressure from reformist groups in urban areas.

The use of these foundations provides segments of the ruling apparatus with potent patronage tools to purchase loyalty and protect core constituencies (ICG 2013). "Their major functions were to implement the promises made under a populist social safety net parallel to formal social security" (Saeidi 2004; 498). They now operate as massive conglomerates shielded from public scrutiny, as they are not legally obligated to disclose economic and accounting information. *Bonyads* operate as [para] nongovernmental organizations in a murky pseudo-public [cooperative] sector of the Iranian economy away from the public eye. The *bonyads*, which account for as much as 30-40 percent of Iran's economy, are not accountable to the executive or legislative branches of government...Many *bonyads* are controlled or staffed by current or former

members of the Revolutionary Guards (Nader 2012) such as Bonyad Mostazafan (Foundation of the Oppressed) and Bonyad Shahid va Omur-e Janbazan (Foundation of Martyrs and Veterans Affairs).

One of the largest and wealthiest *bonyads*, the Imam Reza Shrine Foundation, is controlled by Khamenei's loyal acolyte, Ayatollah Vaez Tabbasi and is estimated to have accumulated as much as \$15 billion through automobile manufacturing, real estate and agriculture (Nader 2012; 215). *Bonyads* represent the dual power structure in Iran that reinforces the financial authority of religious leaders without accountability (Saeidi 2004). These ideological outreach efforts and control over vital state resources translate into tangible political gains for the Revolutionary Guards, co-opting the clerical establishment's clientage and patronage networks and becoming the de facto state in rural areas. "The commercialization of the IRGC has the potential to broaden the circle of its popular support by co-opting existing financial elites into its constellation of subsidiary companies and subcontractors" (Wehrey et al. 2009; 55). This translates into a larger, diverse demographic of Iranian society in which the Guards are able to exert influence and counter any reformist opposition. "Sanctioned states with substantial resources, such as oil-rich Iran, are in a position to redistribute among factions and sectors, buy off critics, and pay more for what they need" (Stein 2012; 54). This enabled the IRGC to transform into a multidimensional actor with vast institutional reach, extending into the Iranian economy, government and society.

The Black Market

Outside of its declared enterprises, the IRGC is reported to control an underground shadow economy of black-market goods, smuggled into Iran via illegal jetties and other entry points that it alone controls (Wehrey et al. 2009; xv). The black-market economy is a major source of revenue for the architects of Iran's nuclear program. The IRGC manipulate the sanctions by leveraging control over the black market to benefit its protected constituencies. Leaders advancing inward-looking models shield favored constituencies including protected industries, military-industrial enterprises, state bureaucracies, the under-employed, and segments of the population that are highly dependent on states subsidies and military procurement (Solingen 2012).

In addition, the Revolutionary Guards circumvented many of the most economically damaging effects of sanctions as their revenues are essentially left unscathed by the sanctions regime. There is evidence, albeit anecdotal, that these informal networks are the channels through which Iran is able to export its commodities. The revenues earned from illicit trading are used for the acquisition of advanced weaponry, the development of nuclear research programs and the general expansion of military-industrial spending within Iran. The Guards have a clear, vested interest in the nuclear program's ultimate success, especially in the face of U.S. and international pressure that strengthens its domestic position. There are parallels between the hard-line elites' control over the black-market economy in Iran and in the former Yugoslavia. "In the former Yugoslavia, hard-line militia groups used their control of border checkpoints and transportation routes to enrich themselves and consolidate political power" (Cortright & Lopez 2000; 22).

The IRGC's vast networks penetrate strategically vital state institutions and important jetties such as the Martyr Rajai Port Complex, which allow them to control trafficking operations, unimpeded by government interference. The IRGC is estimated to yield a 200-300 per cent profit on illegal sales. "One *Majlis* member recently stated that the IRGC black market activities might account for up to \$12 billion USD per year" (Wehrey et al. 2009; 67). Other reports claim that, "smuggling is booming as clandestine networks are increasingly replacing commercial ones...Smuggling networks are becoming an integral part of the shadow economy that reportedly accounts for 21 per cent of GDP" (ICG 2013; 37). The Revolutionary Guards harness their control of these informal networks to facilitate their economic and political expansion. The importance of the hardliners' expansion of control over the state's economic, political and security bureaucracies cannot be overstated as this trend has undoubtedly caused Iranian domestic politics to shift to the political right.

The immediate implications of this development is that the black market is fostering the rise of informal power structures for introverted coalitions and contributing to the lack of accountability and transparency in the Iranian economic and political system (ICAN 2012). Economic isolation forces many Iranians to rely more heavily on these informal sources of power, empowering the conservative establishment and its protectors. In effect the banking sanctions are forcing massive reliance on a cash based economy, making already vulnerable Iranians dependent on black-marketeers for the transfer of funds to cover educational, health or other legitimate costs of living. As ordinary Iranian's cash savings lose value due to inflation and the currency collapse, they

rely more and more on the government, on the well-connected elites within its institutional hierarchy, and on black-market enterprises dominated by radical coalitions.

The government's use of a multiple exchange rate has helps the regime manage the pain of sanctions while giving discounted rates to foreign exchange to its close allies. Members of the Revolutionary Guard exploit their privileged access to cheap petrodollars because of their connections with the state. "At the end of 2011, after a run on the currency, officials fixed the exchange rate at 12,260 rials to the dollar to help importers (Economist 2013b; 51). For those unfortunate enough not to have government connections, the exchange rate is around 24,368 rials to the dollar. This creates a massive black-market demand for cheap foreign exchange, which gives the introverted coalitions a significant strategic economic advantage over its domestic competitors and accelerates its dominance over imports and other vital industries and markets in the Iranian economy.

The growing economic and political power of the IRGC certainly increases its sense of political privilege and entitlement, the consequences of which ultimately equate into a hardline stance on the nuclear program. Forcing Iranians to move toward a cash economy reduces transparency and creates a greater source of illicit trade in the Persian Gulf and thus produces more income for military-industrial conglomerate, the IRGC. The lack on financial transparency and accountability into Iran's inner economic workings undoubtedly empowers and supports the IRGC's many illicit activities, as well as its control of a shadow economy. As Wehrey et al. (2009) argue:

As an economic organization more interested in monopoly rather than open competition, the IRGC may wish to keep Iran's economy closed off and under its tight control. Under these circumstances, U.S. and international sanctions may not weaken the IRGC, but instead enhance its formal and illicit economic capabilities (Wehrey et al. 2009; 71).

The IRGC's goal is to continue its social, political and economic expansion within Iranian society. The most expedient means of achieving this goal is resisting foreign influence, maintaining tension with the West and remaining isolated from the outside world. The cacophony of negative inducements imposed on Iran introduces a domestic trend in which the radical coalitions thrive. According to Kreps and Pasha (2012; 197), for Iran "increased spending on its military-industrial complex along with decreased investment and trade freedom (a result of financial sanctions) following the issuance of negative inducements point toward an inward reorientation of its government and dominant elites."

Conclusion

Negative inducements (threats of war and comprehensive sanctions) have the aggregate effect of heightening Iran's sense of insecurity. Negative inducements, including bellicose rhetoric from U.S. and Israeli leaders, inadvertently manipulate the domestic coalition balance of power in Iran and lessened the political-economic obstacles for the IRGC's rise to power. Iran's sense of insecurity is instrumentalized by the IRGC as their *raison d'état* for developing the nuclear program despite the rising costs of doing so. A cursory glance at a map of the post 9/11 Middle East reveals Iran's precarious security situation. Iran is surrounded by unstable and/or hostile governments, U.S. warzones, allies and military bases and an other nuclear powers such as Israel,

unrestricted by the non-proliferation treaty (NPT) or any of the international institutions currently demanding Iran's compliance.

Since 2006, the increasing number of punitive measures imposed on Iran has only served to convince growing numbers of the population of the West's malicious intent, igniting their revolutionary ardor for sacrifice and resistance. Sanctions create a siege mentality that justifies a prolonged national state of emergency in Iran, making it easier to protect Islamist right constituencies, suppress dissent and divert attention away from governmental failings (e.g. economic mismanagement of the Ahmadinejad administration). Politicizing the nuclear crisis is part and parcel of the IRGC's larger strategy of igniting their base of support, legitimizing their institutional mandate as providers of the 'sacred defense' for the country and most importantly, keeping their coffers full. As Davies notes, "U.S. attempts at economic isolation have given the Iranian government a plausible scapegoat for internal economic problems" (2012; 324). Threats have perpetuated Iran's sense of strategic vulnerability and made it easier for Iran's Islamist right to justify a more radical foreign policy agenda, in which nuclear proliferation served as their primary tool to guarantee the country's defense. As analyzed in the previous chapter, the state of emergency also constrains domestic competitors that may otherwise interfere with the political and economic campaign of the IRGC.

With autonomous private enterprise in demise and the expansion of the IRGC into newly-privatized industries, the IRGC expanded its patronage networks and charity operations. "Whether real or exaggerated, this threat perception has had the effect of deepening and broadening the IRGC's populist and mobilizing outreach into virtually every geographic, economic, and societal sector of Iran" (Wehrey et al. 2009; 32). With

more and more people becoming dependent on the state for basic goods and services, hardliner groups have sought to replace the once vital civil society organizations, augmenting the scope of conservative influence in impoverished rural and urban areas. Forcing ever increasing numbers of Iranian citizens to become dependent on the economically stable IRGC for survival removes countervailing power centers that potentially challenge their hegemony. According to Arthur Stein (2012; 53), sanctions become problematic only when the sanctioned state does not have market power and must obtain the acquiescence of others. This is not the case in Iran, as the state-controlled segments of the pseudo-public sector currently flourishing are controlled by groups associated with the IRGC, providing introverted coalitions with additional mechanisms to manage the economic pain of sanctions. This is one instance in which “broad economic sanctions not only intensify pressure on politically weak groups, but enables the target government to manipulate the effects of sanctions to benefit their supporters and constituencies” (Bahrami & Trita 2012).

The popular notion that isolating Iran from the international community will eventually persuade its leaders to become better global citizens must be revisited. Increasing Iran’s isolation will continue to provide opportunity structures for the introverted, hardliner groups to protect their economic interests and will therefore strengthen their clenched grip on the formal and informal decision-making apparatus of the state.

Sanctions can be economically effective and politically self-defeating when they exact economic pain but serve to strengthen the sanctioned regime. This occurs both because the state increases its power relative to society and because the factions supporting the state are strengthened relative to those opposed to it. There is no small irony and tragedy in the

ability of sanctions to impose greater costs on a sanctioned regime's opponents than its supporters (Stein 2012; 47).

As the concluding chapter will emphasize, despite conventional wisdom, diplomacy coupled with military threats and instruments used to damage the Iranian economy are not compatible. Introducing positive inducements such as reintegrating Iran into the global economy could possibly undermine the introverted coalition's protectionist economic policies and disrupt its formidable patronage networks, creating new opportunity structures for the moderate coalitions to exploit. Loosening the broad-brush sanctions and thus, removing the convincing threat narrative may reverse the current trajectory and provide an additional avenue of pressure that can be exerted on the regime and stymie the political expansion of the hardliner coalition.

Chapter IV

Towards a Strategic Alternative: Policy Recommendations and Conclusions

There are many misconceptions in Washington regarding the relative effectiveness of sanctions that have immense implications on the course of negotiations. Washington currently finds itself at a crossroads; interpreting sanctions as a success may prompt policy makers to remain patient and wait for the optimal moment when the Iranian economy is on the verge of collapse so to get the best deal from the Iranian interlocutors. Conversely, measuring Iran's overall economic performance may indicate that despite the hit to the Iranian economy, the dominant factions of the Islamist right are finding ways to adjust to the impact of sanctions, which would, in turn, harden the Iranian's negotiating position.

Mainstream analyses tend to present Iran's economic predicament as a 'zero-sum game' in which Iran will either succumb to U.S. demands or continue to absorb the pressure. What this mode of analysis tends to obscure is how sanctions are absorbed by Iran's political elite in a continuous and dynamic fashion (Yong & Hajihosseini 2013). From an international relations theory perspective, a neo-realist approach to assessing the impact of sanctions is inadequate because it assumes that states are unitary actors. Neo-realists tend to discredit the domestic level of analysis, asserting that it is not particularly useful in determining whether sanctions are "working" or not. However, assuming that

the state actors constitute one cohesive polity leads to oversimplifications regarding the distributional impacts of negative inducements and to what extent they impact the motivations and interests of the influential actors of that state. Different pressures and opportunities exist for each actor and must be taken into consideration to effectively assess the role of one measure over another. Reorienting the analytical focus of sanctions assessments from the system level to the domestic level of analysis is the way in which this research contributes to the discipline as a whole.

The distributional effects of sanctions among different actors will play a large role in shaping the Iranian regime's decisions on the nuclear program (Nader 2012; 212). Changing the nuclear calculations of the clerical establishment necessitates a policy that is sensitive to the dynamic and fractured political environment in Iran, and takes into account which policies will empower the moderates or undermine the ultra-conservative belligerents. Recognizing possible cleavages and potential points of leverage between actors requires an understanding of the internal workings of the Iranian state as well as an awareness of elite coalitions' material incentives that influence their calculations and behavior. It is for that reason that this research employed a political economy focus on the elite coalitions in Iran and their access to the resources and power of the state.

Though the realist theoretical perspective itself is insufficient in analyzing the impact of sanctions on the domestic environment of the targeted state, realist thinkers such as Kenneth Waltz come to similar conclusions regarding the overall ineffectiveness of comprehensive sanctions. The inclusion of theorists from multiple disciplines in international relations theory is not to suggest inconsistency in the theoretical framework of this research. It suggests that there are a growing number of academics coming to

similar conclusions, albeit for different reasons, regarding the consequences of economic sanctions. The ineffectiveness of sanctions in terms of achieving their stated objective transcends the traditionally drawn lines of political theory.

This thesis has found that two variables in the domestic environment, “coalition type” and “regime type”, mediate the impact of comprehensive sanctions and threats of war (i.e. negative inducements). In the case of Iran, negative inducements are weakening the Islamic Left while strengthening the political legitimacy and economic clout of the Islamic Right. In previous chapters, I discussed how negative inducements displace the more moderate traditional elites in both the political system and the economic structure of Iran. The use of military threats shift the domestic balance of power between elite coalitions that strengthen introverted factions, enabling their further control over important ministries of the state and the trajectory of Iran’s foreign policy. The sanctions imposed on Iran create a siege mentality that supports the threat narrative of the clerical establishment, enabling them to justify and frame economic pain as a revolutionary sacrifice and repress oppositional voices under the guise of national security. The regime uses nationalistic sentiments to strengthen the resolve of an otherwise war-weary population, deflect criticism, and improve internal cohesion. The pervasive influence of hard-line factions on the political and economic institutions of the state allows them to adapt to the dynamic Iranian economy that is constantly adjusting to the impacts of sanctions. As these extroverted players are marginalized, the IRGC not only fill the economic vacuum they leave behind, but also continue to gain their political influence as well (Alfoneh 2010). In addition, the humanitarian crisis produced by economic sanctions will continue to alienate larger numbers of ordinary Iranians and make it increasingly

difficult for moderate factions within the government to justify an improved relationship with the U.S. and the rest of the international community. Policies that accept that Iranian citizens merely constitute a form of collateral damage may lead more and more vulnerable citizens into the arms of the conservative and radical coalitions, further marginalizing the reform movement and its agenda. In the absence of moderate voices within the Iranian political hierarchy, there will be little hope of exerting the pressure on the regime, translating civilian suffering into tangible policy change or witnessing a change in course on the Iranian side of the nuclear issue. These factors ultimately impact Iran's level of receptivity to external pressure and willingness to cooperate in regards to nuclear proliferation, further emboldening the Iranian regime and its allies to resist external pressure regardless of the mounting costs. The following section brings together lessons from past non-proliferation success stories and the implications of the current non-proliferation efforts on the prospect of reaching a diplomatic solution to the nuclear crisis. These cases lend support to the claim that comprehensive sanctions are disconnected from their stated policy objectives and in various instances, escalate tensions to the point that war must inevitably follow.

Lessons from Other Cases

Over the past 60 years, there have been a few nuclear non-proliferation success stories such as, Taiwan, and South Korea. A key lesson can be extrapolated from these success stories. As J.I. Katz of Washington University points out, one cause of nonproliferation success was democratic transition combined with a security guarantee

from a dominant power that removed the strategic necessity for an independent nuclear force, as was the case for South Korea (Katz 2008). Thus, this case highlights an important condition for the success of non-proliferation initiatives: the need for security assurances and reform. This logic is strikingly absent from the current non-proliferation strategy toward Iran. I have already analyzed how the current sanctions regime is weakening the economic and political power of moderate factions, urban middle classes, and civil society groups that would be expected to push for further democratization in Iran's political system. This is not to assume that in the absence of negative inducements democratization would occur but rather under the current circumstances, the groups most likely to support democratization and reform are unable to exert sufficient pressure on the regime to induce policy change. In addition, instead of removing the strategic necessity for a nuclear deterrent, U.S. rhetoric and action similarly proved to Iran that it is under threat by a superpower. The strategic environment of the Middle East following the U.S. incursions into Iraq and Afghanistan provided a greater degree of security for the Islamic Republic. The U.S. military intervention in Iraq supplanted Saddam Hussein's Sunni Baathist regime and replaced it with a Shi'ite-controlled government. The Taliban, Iran's Sunni rival to the East, was similarly removed from power and replaced by another U.S.-allied regime, that of Hamid Karzai. The removal of Iran's closest strategic threats to its East and West similarly removed the need for a nuclear deterrent. However, it was Washington's veiled threats toward Iran following the 2002 State of the Union speech that forced Iran's leaders to recalculate their strategic position in the Middle East in relation to the newly assertive rogue hegemon. Thus, it was the actions of Washington that convinced Tehran of the strategic necessity of a nuclear deterrent.

We can also ask what lessons can be learned by U.S. participation in sanctions regimes against other Middle Eastern states, namely Iraq and Syria. There are substantial differences between Iraq, Syria and Iran, geographically, politically, economically as well as the factors that warranted the use of sanctions. The sanctions themselves were also applied through different mechanisms. The sanctions against Iran and Iraq, for example, were implemented within the United Nations Security Council framework whereas the sanctions levied against Syria were exerted through U.S. executive orders. However, there is an overriding commonality between the Iranian, Iraqi and Syrian cases that is worth consideration. In all of these instances, there has been a fundamental disconnect between the stated objectives of economic sanctions and what actually takes place within the target country. This perilous gap between proposal and practice has been responsible for dramatic loss of life, the deterioration of living standards within the target countries and the overall worsening of the conditions that sanctions were intended to resolve.

In the Syrian case, “sanctions have already exerted a high economic cost on the population of Syria, especially on vulnerable and poor people, and already lowered the quality of life” (SCPR 2013; 63). Similar to the impact of financial sanctions on Iran, the difficulties of importing substantial goods and services due to the financial sanctions, embargo imposed by several countries, and the currency depreciation have had a negative impact on the livelihoods of people, including the lack of imported essential medicine and energy sources (SCPR 2013). In the midst of all this suffering endured by the civilian population, the sanctions have not brought the Syrian regime closer to a cessation of violence nor has it altered the calculations of its leaders. The sanctions have, however,

helped to hinder Syria's development progress as the population diverts resources from productive to destructive activities.

Iraq is yet another instructive case of the failure of sanctions to fulfill its specified goal. The goal of the Iraqi sanctions imposed by the U.N. Security Council was originally to inflict sufficient costs on Iraq's economy to convince the regime to withdraw its army from Kuwait. This episode serves as yet another example of the failure of sanctions, since the Iraqi army did not withdraw until U.S. military intervention expelled it in 1991 (SCPR 2013). According to a report conducted by Dr. Mary Smith Fawzi for the U.N. Food and Agriculture Organization, the sanctions on Iraq did not achieve its purpose, however, it did inflict insurmountable pain the Iraqi people, the poor and disenfranchised and is responsible for the deaths of over 500,000 children under the age of five. For this reason, "the tendency to see economic sanctions as "below" the use of military force on some imagined ladder of foreign policy escalation must be revised" (Haass 1997; 79). Sanctions have historically been a prelude to war, not a tool to quell instability or deescalate tensions.

These cases illustrate that sanctions weaken society and do not induce radical factions or leaders to compromise on what they see as important domestic security and economic imperatives. Economic warfare thinly veiled as diplomacy is not moving the U.S. closer to their non-proliferation goals and therefore, alternative strategies that are attentive to the internal political dynamics of Iran must be formulated. In other words, there is compelling evidence from these aforementioned cases to suggest that comprehensive sanctions simply do not work.

Recommendations

While sanctions have shown little effectiveness, there is also no silver bullet strategy available to dissuade Iran's leaders from developing its nuclear technology, whether for peaceful purposes or for weapons. Any strategy aimed at altering this trajectory will inevitably fall short of its goals. Negotiations would have to proceed from recognition on the part of the U.S. that Iran does, in fact, have an unalienable right to the peaceful use of nuclear technology. Article IV of the NPT (to which Iran is a signatory) specifies rights of state parties to the treaty to engage in nuclear research geared toward peaceful uses, such as power generation or production of isotopes with medical utility (Bali 2006). As in all cases, and so with Iran, the costs or imperfections of one strategy over another can only be measured in comparison to the potential costs of alternative strategies (Dueck & Takeyh 2007). The section below lays out a range of possible strategic options currently on the table for consideration as well as their counterfactual implications, starting with the most ill-advised policy option to the more plausible one.

The Pre-emptive - Rollback Option

A preventive war waged against Iran would be a foreign policy mistake on a scale that is unprecedented. Strategic thinkers tend to refer to the military option as a rollback strategy, in which military force is used to topple a hostile or aggressive regime. The Bush Administration was quick to judge this option as the most effective strategy at their disposal following the terrorist attacks on September 11, 2001. Rollback strategies tend to

be myopic in the sense that they fail to consider the domestic blowback and the possible spillover of the conflict into neighboring countries. It can be argued that the U.S. currently employs a less extreme variation of this policy as rollback can encompass the use of diplomatic or economic sanctions in the hopes that such pressures will provoke the demise of the targeted regime (Dueck & Takeyh 2007).

According to a 2012 report by the Federation of American Scientists, the estimated cost of a full-scale U.S. invasion on Iran could cost more than \$1.7 trillion (USIP 2012). Furthermore, there is no evidence to suggest that U.S. military intervention would actually destroy Iran's nuclear capabilities. Targeted air strikes might delay the program but such a move would ignite the revolutionary fervor that empowers the IRGC and its conservative allies, as well as provoking a nationalist backlash that would justify the pursuit of nuclear weapons. Many in the ranks of the Revolutionary Guard believe that regime change is the true motivation behind American action and confirming their suspicion would make the prospect of diplomacy a distant memory. As Kahl argued, "a U.S. attack would likely rally domestic Iranian support around nuclear hard-liners, increasing the odds that Iran would emerge from a strike even more committed to building a bomb" (2012; 171). In the event of a pre-emptive strike by the West, figures like Khamenei would have little choice than to cede to domestic pressure and weaponize its civilian nuclear program (CFR 2012).

Unfortunately, in Iran, the domestic costs of making concessions outweigh the international inducements presently available to incentivize cooperation. The prevailing paradigm in Iran regarding diplomatic engagement is that negotiations are pointless because any concessions on the Iranian's part will lead to further impositions, weakening

their position both internationally and domestically. Even the most valuable prize the U.S. and its European allies could offer---normalization of relations and the integration of the Islamic Republic into the world community--- could conflict with the worldview of dominant actors in Iran, specifically the IRGC, and undercut their power (Jervis 2013). With the Revolutionary Guards behind the helm of the most influential policy-making institutions in Iran, any policy realignment toward moderation will presuppose their removal from power. This expulsion from power will not come at the hand of foreign interlopers but rather from the competing domestic coalitions in Iran. The internal dynamics of Iran will have a significant impact on the direction of the nuclear policy. Of course, these are rough approximations of the costs of escalation, nevertheless, it is clear that any type of military escalation to the current standoff would not only be detrimental to the U.S. but to the global economy as well.

Containing the Revolution

The U.S. has primarily relied on a strategy of containment throughout its turbulent relationship with Iran. Containment generally requires deploying a military counterweight around the state to be contained. While the U.S. accomplished this to a large extent with its system of bilateral alliances in the Persian Gulf, the creation of a credible military threat plays into the narrative of the Islamic Right, justifying increased military spending and the harsh repression of domestic competitors. Prolonging the conflict with the West is an effective means for the IRGC and other radical groups to rekindle popular support for the Islamic revolution's fading élan (Dueck & Takeyh

2007). In addition, a policy of containment and a policy of engagement are mutually exclusive. Using a strategy of diplomacy while reiterating the potential of a military reprisal for non-capitulation is like trying to negotiate while firmly planting a gun to your counterpart's head. It is counterproductive to consider making security assurances while at the same time threatening security.

The harsh, warlike rhetoric of the U.S. (spanning both the Bush and Obama presidencies), Israel and other European nations plays into the narrative created by the hardliner coalitions that there is a clear and present danger necessitating a nuclear deterrent and fierce repression of internal dissent. As discussed in chapters II and III, threats, whether they are economic, military or rhetorical, produce a range of unintended consequences. One of the most significant consequences is the shift in power between domestic coalitions. Rhetorical threats and restrictive measures solidified conservative political hegemony over the domestic political and economic institutions of the state.

In contrast, depriving the regime of the notion that there are *barbarians at the gates* (Coetzee 1980) or an exaggerated external enemy, the regime would no longer be able to use diversionary tactics to frame their own economic mismanagement as an international plot to undermine the legitimacy of the regime. The notion of institutional reform would no longer be synonymous with treason or a ploy by the U.S. and internal dissidents to topple the regime; but rather, something that is necessary to improve the health of the Iranian economy and political system. Hardliner groups in Iran already believe that the U.S.'s primary aim is not the stabilization of the region but the weakening of the regime; therefore intensifying the military component of U.S. policy would only confirm their suspicions. Moreover, "adding still more sanctions now could

make Iran feel even more vulnerable, giving it still more reason to seek the protection of the ultimate deterrent” (Waltz 2012; 2). *Jumhuri-ye Islami*, a conservative newspaper in Iran, similarly noted that, “the core problem is the fact that our officials’ outlook on the nuclear dossier of Iran is faulty... It seems they have failed to appreciate that America is after our destruction and the nuclear issue is merely an excuse for them” (Dueck & Takeyh 2007; 195).

For negotiations to be successful, U.S. non-proliferation policy toward Iran must focus on the demand-side of the nuclear equation. In other words, what factors contribute to Iran’s pursuit of uranium enrichment? There must be some recognition on the part of the U.S. of Iran’s regional context and its security concerns. “It must be emphasized from the outset that for all the factions involved in this debate, the core issue is how to safeguard Iran’s national interests” (Dueck & Takeyh 2007; 195). Therefore, Washington needs to convince Tehran that negotiations are not designed to weaken its regional position or a clandestine effort at regime change. To build this degree of trust, the U.S. must consider a strategic alternative to the present course, one that moves from how to contain Iran to how to engage Iran.

Engagement through Integration

The sanctions regime threatens Iran’s bond to the global economy. In early February, President Barak Obama signed into law a new round of sanctions that aim to further isolate Iran from the global economy by targeting its energy and media sectors (Gallup 2013). “Instead of helping to promote a developmental state whose behavior is

moderated by the multi-faceted links created, the sanctions regime strives to sever those links based on the claim that those links will eventually make the Islamic Republic a better global citizen” (Fahri 2012b). Limiting Iran’s role in the global economy is no doubt hurting legitimate businesses in Iran but economic isolation is being used to the advantage of hardline coalitions who are the principal architects of the nuclear program. For example, the regime manipulated the collapse of the rial to empower the regime’s closest allies, notably the Revolutionary Guards. The decline in the value of the rial equates to a reduction in foreign imports and the removal of foreign companies from Iranian markets. Since foreign imports are too expensive for the average Iranian to afford, the consumption pattern of the population has shifted from the purchasing of foreign goods to domestic products. Therefore, the domestic coalitions who wield dominant control over the lucrative Iranian markets are the direct beneficiaries of this stimulation in domestic production caused by the financial sanctions.

The government and its revolutionary allies use their soaring profits to further their redistributive and populist policies to gain the support of the poorest sectors of society, who are typically the first to engage in collective action. Since 2006, rural households have actually seen a rise in their median income per capita along with the bottom 10% in the urban population (Salehi-Isfahani 2012). The use of cash transfers, as a way to bring oil revenues to the dinner table, constitutes an important component of the regime’s extensive patronage network to retain the support of the conservative rural and urban poor. Meanwhile, under sanctions, the wealthier middle and upper classes, which are generally liberal, experienced rising unemployment and political marginalization as a result of their waning economic clout.

The removal of foreign companies means the removal of competition and allows for domestic companies to establish a monopoly in their respective markets. This dynamic allowed for a reduction in transparency, an increase in corruption, and the empowerment of the coalitions who are well connected to the government. Companies who rely on foreign imports or lack government connections, such as those in the Reformist and Pragmatist camps, are left at a competitive disadvantage to their revolutionary counterparts. According to Djavad Salehi-Isfahani, an expert economist and former researcher at the Iranian Central Bank, these private sector businesses currently owe the central bank over \$17 billion in debt. The sanctions regime is threatening Iran's bond to the global economy, not only through the straight-jacketing of the middle class and private sector, which is the promoter of that bond, but also hindering the point of view supportive of economic integration (Farhi 2012b; 1).

Instead of severing Iran from the global economy, there must be an effort to create more interdependencies so to increase mutual interests, communication, information and possibly the spread of democratic values. "Continuity in relations provides opportunities to assess the actions of others in order to reward good behavior and punish uncooperative behavior" (Keshavarzian 2007; 16). Economic interaction is desirable because it promotes more open political and economic systems and benefits extroverted coalitions who rely on international markets as a source of their political strength. Market economic reform also reinforces the development of civil society. The use of engagement as a strategy of integration uses diplomatic and economic contact as a strategy in itself in the hopes of creating patterns of cooperation, integration, and interdependence between two hostile states (Dueck & Takeyh 2007). "After years of zero

relations and a torrent of propaganda from both capitals, mistrust is endemic” (Economist 2013a; 36). In contrast, continuity of diplomatic relations reduces uncertainty about the preferences of others, and the accumulation of precedents helps diminish bargaining costs associated with transactions (Keshavarzian 2007). The lesson gleaned from the thought experiment called the Prisoner’s Dilemma personifies the current stalemate between Iran and the West on the nuclear file. In the absence of transparency and communication, cooperation is virtually impossible to obtain. Not only is cooperation impossible to obtain under these conditions, but the uncertainty vis-à-vis the motivations and preferences of the dominant actors creates a spiral of insecurity (see Jervis 2009) that risks escalating tensions to the point of no return.

Critics of a strategy of engagement through integration believe that it badly underestimates the hostility of most factions within the Iranian government toward the U.S. (Dueck & Takeyh 2007). However, this critique does not take into consideration the aforementioned fact that isolating Iran from international markets strengthens the domestic factions most hostile to the U.S. while alienating their moderate counterparts.

Above all, the U.S. has a strategic interest in creating a good relationship with the Iranian people, as the objective of economic sanctions is to change the calculations of Iran’s leaders, which necessitates the support of the Iranian society. A good place to start would be to stop threatening Iran. A positive step in this direction would be to remove the sanctions that have done the most harm to the Iranian population. In the context of Washington’s political gridlock, it would require more political capital than the President currently possesses to repeal the oil sanctions on Iran. It would be nearly impossible to loosen these restrictive measures as a way to entice Iranian cooperation because doing so

would require the support of Congress, which favors a more confrontational demeanor toward Iran. Under the current circumstances, it is unrealistic to believe that the oil embargo is going away anytime soon. “Across a wide political spectrum in Washington “compromise” remains a dirty word when it comes to Iran. Yet, as a bevy of commentators and think-tank specialists urge the offering bigger incentives may be the only way to persuade Iran to lower the diplomatic drawbridge” (Economist 2013a; 36).

In sum, the clenched fist policy toward Iran is counterproductive to U.S. goals. The carrot should come in the form of a relaxation on the financial sanctions imposed on Iranian society. Reintegrating Iran into the global economy does not necessarily mean that the U.S. must open its own markets to Iran; it would be an incremental process of loosening some of the more draconian coercive measures such as restricting specialized medicines while encouraging U.S. partners to reopen trade relations with Iran.

This is not to promote a strategy of appeasement in which the U.S. makes unilateral concessions in the vague hope of obtaining Iranian cooperation. As chapter II illustrated, the financial and banking sanctions exasperated a humanitarian crisis in Iran that has reoriented public anger on the regime toward the West. The humanitarian crisis effectively removes the ‘transmission mechanism’ needed to translate the suffering of Iranian citizens into tangible grassroots pressure on the regime. The financial sanctions are responsible for the demise of civic activism in Iran by destroying the connective structures, the financial tools required for sustained collective action and by suffocating the reform movement.

The culmination of these factors offers an alternative narrative to Washington’s claim that sanctions are effective in strangling the Iranian economy and therefore, likely

to trigger the demise of the regime. A closer look reveals that financial sanctions are the most counterproductive to U.S. interests. Loosening these sanctions could possibly restore the Reformist and Pragmatists' former economic primacy as well as domestic balance of power between moderate and hardline coalitions. In addition, President Obama has a lot more latitude on financial sanctions than he does in regards to oil sanctions. The President has discretion over removing or loosening the financial sanctions, as doing so does not require authorization from congress. "Policymakers could promise and deliver sanctions relief as a part of the overall effort to build confidence, induce gradual shifts in behavior, and reinforce contours of a new relationship" (CFR 2012; 65).

The political costs of loosening sanctions can be managed because if this strategy ultimately yields no positive results than new sanctions can always be reapplied. Resolving the nuclear quagmire in the form of the U.S. removing outdated economic penalties, such as financial sanctions or restrictive measures imposed around the time of the Iranian Revolution, could add over \$60 billion in revenues to the global economy and build the trust needed to come to a diplomatic solution. There is a common misconception that economic sanctions are far less economically costly than war. In some respects this is true. However, there are costs borne by U.S. businesses forced to forgo commercial opportunities in Iran (CFR 2012). Another round of U.S. sanctions on transactions with Iran's central bank could potentially cost the global economy billions of dollars in lost revenue. If President Obama is serious about offering an extended hand to Iran instead of a clenched fist as he claimed in 2009, then putting an end to the financial sanctions is as good a place as any to start.

Conclusion

This research set out to find a causal story to explain the impacts of sanctions on the political economy of Iran's elite coalitions, which could be applied to similar cases and help guide policy-makers on which course of action would be most appropriate. In Iran, these negative inducements have allowed for the strengthening of introverted coalitions as economic isolation has enabled them to further entrench their ability to strengthen their monopolies, core protected constituencies, the military-industrial complex, notably the Iranian nuclear program, and their tight grip on the levers of state power. At the same time, the impacts of negative inducements have been much different for extroverted elite coalitions, specifically the reform movement and its key allies. Comprehensive sanctions coupled with military threats undermine these groups' ability to attract foreign investment and strengthen its ties to the international environment. These conditions undermine the might of extroverted coalitions who, derive their economic and political power through greater integration with the global economy and are the advocates of a conciliatory nuclear policy. In terms of the Iranian case and other instances in which negative inducements are used, additional attention on the political economy of the elite domestic coalitions who influence the direction of their country's nuclear policy is a vital consideration in determining how to craft negative or positive inducements, as well as when their use will produce the desired outcome. Not only do current non-proliferation strategies increase Iran's insecurity and undermine the forces needed to initiate reforms and moderate Iran's foreign policy, these strategies play into the hands of groups that

have an interest in isolating the country from the global economy, thus making denuclearization less likely (Solingen 2013).

This analysis illustrates the ways in which the impacts of economic sanctions are distributed unevenly across the political spectrum of Iran and other states. As stated in the introductory chapter, the domestic receptivity to external sanctions and inducements is contingent on the specific attributes of the domestic political landscape (Solingen 2012). Positive and/or negative inducements must reflect the reality of the domestic political environment and be cognizant of the pressures and opportunities that exist for important domestic elite coalitions. In instances where they do not accurately reflect the reality of the domestic political environment, counterproductive, unintended consequences are likely to manifest. According to Stein (2012; 47), for sanctions to be politically as well as economically successful they must attack the bases of state power, they must impose costs on the elite and its supporting coalition (in this case the ruling elite is the conservative traditionalists and their primary elite ally is the IRGC) and relatively strengthen forces opposed to the government and its policies.

An underlying theme of this thesis is that current U.S. policy instruments are out of alignment with policy objectives. The examples presented throughout the preceding chapters have highlighted how the stated objectives of economic sanctions do not match the reality in Iran and elsewhere. The economic, social and humanitarian spillover of negative inducements impacts the broader political environment in such a way that strengthens the targeted state. If the U.S. continues to rely on negative inducements such as threats of war and economic sanctions to achieve their non-proliferation goals, Iran's level of receptivity and willingness to cooperate on the issue of uranium enrichment will

continue to diminish and events will continue to transpire in a way that is counterproductive to U.S. policy objectives. Alternatively, as suggested throughout this work, leading political figures in the Islamic Right have built fortunes and political power bases around adapting to sanctions, so removing or loosening sanctions might actually harm rather than help them (Jervis 2013). Depriving the Islamic Right of an external enemy will make the task of selling a radical foreign policy agenda increasingly difficult. As economic conditions improve for ordinary Iranians so too will the possibility that diplomacy will once again resume. Thus, policy-makers must seriously consider grappling with the notion that the most relied upon diplomatic instrument in the U.S. arsenal must be abandoned.

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